VISTEON CORP
Form 10-Q
July 27, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

____
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017,
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________
Commission file number 001-15827
VISTEON CORPORATION
(Exact name of registrant as specified in its charter)

State of Delaware	38-3519512
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Village Center Drive, Van Buren Township, Michigan	48111
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (800)-VISTEON
Not applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No__
Indicate by check mark whether the registrant: has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No __
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer," "accelerated filer,” "smaller reporting company" and “emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ü Accelerated filer __ Non-accelerated filer __ Smaller reporting company __
Emerging growth company __
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. __
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes __ No ü
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ü No__

As of July 20, 2017, the registrant had outstanding 31,171,820 shares of common stock.
Exhibit index located on page number 47.

1

Table of Contents

Visteon Corporation and Subsidiaries
Index

Table of Contents

Part I
Financial Information

Item 1. Consolidated Financial Statements

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Sales	$774	$773	$1,584	$1,575
Cost of sales	662	664	1,341	1,345
Gross margin	112	109	243	230
Selling, general and administrative expenses	53	54	104	110
Restructuring expense	3	7	4	17
Interest expense	5	4	11	8
Interest income	1	1	2	3
Equity in net income of non-consolidated affiliates	3	3	5	3
Other (income) expense, net	(3)	—	(2)	4
Income before income taxes	58	48	133	97
Provision for income taxes	10	9	26	22
Net income from continuing operations	48	39	107	75
Income (loss) from discontinued operations, net of tax	—	(9)	8	(22)
Net income	48	30	115	53
Net income attributable to non-controlling interests	3	4	7	8
Net income attributable to Visteon Corporation	$45	$26	$108	$45
Basic earnings (loss) per share:				
Continuing operations	$1.43	$1.03	$3.12	$1.85
Discontinued operations	—	(0.26)	0.25	(0.61)
Basic earnings per share attributable to Visteon Corporation	$1.43	$0.77	$3.37	$1.24
Diluted earnings (loss) per share:				
Continuing operations	$1.41	$1.02	$3.07	$1.83
Discontinued operations	—	(0.26)	0.24	(0.60)
Diluted earnings per share attributable to Visteon Corporation	$1.41	$0.76	$3.31	$1.23
Comprehensive income:				
Comprehensive income	$56	$29	$146	$71
Comprehensive income attributable to Visteon Corporation	$52	$27	$137	$65

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	(Unaudited) June 30 2017	December 31 2016
ASSETS		
Cash and equivalents	$ 730	$ 878
Restricted cash	4	4
Accounts receivable, net	519	505
Inventories, net	165	151
Other current assets	159	170
Total current assets	1,577	1,708
Property and equipment, net	352	345
Intangible assets, net	127	129
Investments in non-consolidated affiliates	39	45
Other non-current assets	151	146
Total assets	$ 2,246	$ 2,373
LIABILITIES AND EQUITY		
Short-term debt, including current portion of long-term debt	$ 42	$ 36
Accounts payable	439	463
Accrued employee liabilities	90	103
Other current liabilities	234	309
Total current liabilities	805	911
Long-term debt	347	346
Employee benefits	305	303
Deferred tax liabilities	22	20
Other non-current liabilities	62	69
Stockholders' equity:		
Preferred stock (par value $0.01, 50 million shares authorized, none outstanding as of June 30, 2017 and December 31, 2016)	—	—
Common stock (par value $0.01, 250 million shares authorized, 55 million shares issued, 31 and 33 million shares outstanding as of June 30, 2017 and December 31, 2016, respectively)	1	1
Additional paid-in capital	1,331	1,327
Retained earnings	1,377	1,269
Accumulated other comprehensive loss	(204)	(233)
Treasury stock	(1,936)	(1,778)
Total Visteon Corporation stockholders' equity	569	586
Non-controlling interests	136	138
Total equity	705	724
Total liabilities and equity	$ 2,246	$ 2,373

See accompanying notes to the consolidated financial statements.

4

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Millions)
(Unaudited)

	Six Months Ended June 30	
	2017	2016
Operating Activities		
Net income	$115	$53
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	41	41
Equity in net income of non-consolidated affiliates, net of dividends remitted	(5)	(3)
Non-cash stock-based compensation	6	4
Gain on India operations repurchase	(7)	—
(Gains) losses on divestitures and impairments	(2)	4
Other non-cash items	3	1
Changes in assets and liabilities:		
Accounts receivable	8	27
Inventories	(8)	5
Accounts payable	(20)	(17)
Accrued income taxes	2	(49)
Other assets and other liabilities	(47)	(52)
Net cash provided from operating activities	86	14
Investing Activities		
Capital expenditures	(47)	(37)
India operations repurchase	(47)	—
Climate Transaction withholding tax refund	—	356
Settlement of net investment hedge	5	—
Short-term investments	—	47
Loans to non-consolidated affiliates, net of repayments	—	(12)
Proceeds from asset sales and business divestitures	13	4
Net cash (used by) provided from investing activities	(76)	358
Financing Activities		
Short-term debt, net	7	(10)
Principal payments on debt	(2)	(1)
Distribution payments	(1)	(1,736)
Repurchase of common stock	(160)	(500)
Dividends paid to non-controlling interests	(11)	—
Stock based compensation tax withholding payments	(1)	(11)
Other	(3)	—
Net cash used by financing activities	(171)	(2,258)
Effect of exchange rate changes on cash and equivalents	13	4
Net decrease in cash and equivalents	(148)	(1,882)
Cash and equivalents at beginning of the period	878	2,729
Cash and equivalents at end of the period	$730	$847

See accompanying notes to the consolidated financial statements.

Table of Contents

VISTEON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Description of Business

Visteon Corporation (the "Company" or "Visteon") is a global automotive supplier that designs, engineers and manufactures innovative electronics products for nearly every original equipment vehicle manufacturer ("OEM") worldwide including Ford, Mazda, Nissan/Renault, General Motors, Honda, BMW and Daimler. Visteon is headquartered in Van Buren Township, Michigan and has an international network of manufacturing operations, technical centers and joint venture operations, supported by approximately 10,000 employees, dedicated to the design, development, manufacture and support of its product offerings and its global customers. The Company's manufacturing and engineering footprint is principally located outside of the United States. Visteon delivers value for its customers and stockholders through its technology-focused core vehicle cockpit electronics business. The Company's cockpit electronics product portfolio includes instrument clusters, information displays, infotainment systems, audio systems, telematics solutions, and head up displays. The Company's vehicle cockpit electronics business is comprised of and reported under the Electronics segment. In addition to the Electronics segment, the Company had operations in South America and Europe associated with the former Climate business, not subject to discontinued operations classification, that comprised Other, and were exited by December 31, 2016.

NOTE 2. Summary of Significant Accounting Policies

The unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments, except as otherwise disclosed) that management believes are necessary for a fair presentation of the results of operations, financial position and cash flows of the Company for the interim periods presented. Interim results are not necessarily indicative of full-year results.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current period presentation.

Other (Income) Expense, Net:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Transformation initiatives	$—	$ 1	$—	$ 4
Transaction exchange (gains) losses	—	(1)	—	—
Gain on non-consolidated affiliate transactions, net	(3)	—	(2)	—
	$(3)	$ —	$(2)	$ 4

Transformation initiative costs include information technology separation costs, integration of acquired business, and financial and advisory services incurred in connection with the Company's transformation into a pure play cockpit electronics business. The gain on non-consolidated affiliate transactions represents the Company's sale of two cost method investments and an equity method investment during the six months ended June 30, 2017 as further described in Note 4, "Non-Consolidated Affiliates."

Restricted Cash: Restricted cash represents amounts designated for uses other than current operations and includes $3 million related to the Letter of Credit Facility, and $1 million related to cash collateral for other corporate purposes as of June 30, 2017.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-9, "Revenue from Contracts with Customers," which is the new comprehensive revenue recognition standard that will supersede existing revenue recognition guidance under U.S. GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. This ASU allows for both retrospective and prospective methods of adoption.

The Company has, with other industry leaders, interacted with the FASB on certain interpretation issues as well as interacted with non-authoritative industry groups with respect to the implementation of the standard and will continue to monitor the interactions between its industry group and the standard setters. The Company does not expect any changes to how it accounts for reimbursable pre-production costs, currently accounted for as a cost reduction. In addition, the Company continues to evaluate its contracts with customers, analyzing the impact, if any, on revenue from the sale of production parts. Currently, the Company does not expect the adoption of this standard to have a material impact on its results of operations or financial position; however, the Company expects to expand disclosures in line with the requirements of the new standard. The Company will adopt this standard January 1, 2018 and has selected the modified retrospective transition method. Under the modified retrospective method, the Company would recognize the cumulative effect of initially applying the standard as an adjustment to opening retained earnings at the date of initial application. As a policy election, the Company plans to exclude all shipping and handling costs from revenue, which is consistent with current accounting.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The amendments in Topic 842 supersede current lease requirements in Topic 840 which require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, these amendments are not expected to significantly impact net income, earnings per share, and the statement of cash flows. This new guidance was effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company's adoption of this standard did not have a material impact on its consolidated financial statements. The Company has adopted an entity-wide accounting policy election to account for forfeitures in compensation cost when they occur.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments." The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU will be applied using a retrospective transition method to each period presented. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost." The ASU requires entities to present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Entities will present the other components separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented, and disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The standard will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, for the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 and interim periods, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The ASU amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will allow companies to make certain changes to awards without accounting for them as modifications. It does not change the accounting for modifications. The new guidance will be applied prospectively to awards modified on or after the adoption date. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

NOTE 3. Discontinued Operations

During 2014 and 2015, the Company divested the majority of its global Interiors business (the "Interiors Divestiture") and completed the sale of its Argentina and Brazil interiors operations on December 1, 2016. Separately, the Company completed the sale of the majority of its global Climate business (the "Climate Transaction") during 2015. As the operations subject to the Interiors Divestiture

Table of Contents

and Climate Transaction met conditions required to qualify for discontinued operations reporting, the results of operations for the Interiors and Climate businesses have been reclassified to income (loss) from discontinued operations, net of tax in the consolidated statements of comprehensive income for the three and six month periods ended June 30, 2017 and 2016.

Discontinued operations are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Sales	$—	$11	$—	$20
Cost of sales	—	15	—	28
Gross margin	—	(4)	—	(8)
Selling, general and administrative expenses	—	2	—	2
Loss (gain) on Climate Transaction	—	2	(7)	2
Loss and impairment on Interiors Divestiture	—	1	—	2
Other expense, net	—	1	—	1
(Loss) income from discontinued operations before income taxes	—	(10)	7	(15)
(Benefit) provision for income taxes	—	(1)	(1)	7
Net (loss) income from discontinued operations, net of tax, attributable to Visteon	$—	$(9)	$8	$(22)

In connection with the Climate Transaction, the Company completed the repurchase of the electronics operations located in India during the first quarter of 2017 for $47 million, recognizing a $7 million gain on settlement of purchase commitment contingencies. The Company had previously consolidated the India operations based on the Company's controlling financial interest as a result of the repurchase obligation, operating control, and the obligation to fund losses or benefit from earnings.

During the six months ended June 30, 2016, the Company recorded currency impacts of $8 million in connection with the Korean capital gains withholding tax recovered during the first quarter of 2016.

NOTE 4. Non-Consolidated Affiliates

Non-Consolidated Affiliate Transactions

Visteon and Yangfeng Visteon Automotive Trim Systems Co. Ltd. ("YFV") each own 50% of a joint venture under the name of Yanfeng Visteon Electronic (China) Investment Co., Ltd. ("YFVIC"). In October 2014, YFVIC completed the purchase of YFV’s 49% direct ownership in Yanfeng Visteon Automotive Electronics Co., Ltd ("YFVE") a consolidated joint venture of the Company. The purchase by YFVIC was financed through a shareholder loan from YFV and external borrowings which were guaranteed by Visteon, of which $18 million is outstanding as of June 30, 2017. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

During the first quarter of 2017, the Company completed the sale of its 50% interest in an equity method investment for proceeds of $7 million, consistent with its carrying value. Additionally, the Company sold a cost method investment for proceeds of approximately $3 million and recorded a pretax loss of $1 million classified as "Other (income) expense, net."

During the second quarter of 2017, the Company sold a cost method investment for proceeds of approximately $3 million. The Company recorded a pretax gain of $3 million classified as "Other (income) expense, net."

Investments in Affiliates

The Company recorded equity in net income of affiliates of $3 million for both three month periods ended June 30, 2017 and 2016. For the six month periods ended June 30, 2017 and 2016, the Company recorded net income of affiliates of $5 million and $3 million, respectively.

Table of Contents

Investments in affiliates were $39 million and $45 million as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, investments in affiliates accounted for under the equity method totaled $38 million and $40 million, respectively, while investments in affiliates accounted for under the cost method were $1 million and $5 million as of June 30, 2017 and December 31, 2016, respectively.

Variable Interest Entities

The Company determines whether joint ventures in which it has invested are Variable Interest Entities ("VIE") at the start of each new venture and when a reconsideration event has occurred. An enterprise must consolidate a VIE if it is determined to be the primary beneficiary of the VIE. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company determined that YFVIC, is a VIE. The Company holds a variable interest in YFVIC primarily related to its ownership interests and subordinated financial support. The Company and YFV each own 50% of YFVIC and neither entity has the power to control the operations of YFVIC, therefore the Company is not the primary beneficiary of YFVIC and does not consolidate the joint venture.

A summary of the Company's investments in YFVIC is provided below.

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Payables due to YFVIC	$ 7	$ 14
Exposure to loss in YFVIC		
Investment in YFVIC	$ 26	$ 22
Receivables due from YFVIC	16	15
Subordinated loan receivable	22	22
Loan guarantee	18	22
Maximum exposure to loss in YFVIC	$ 82	$ 81

NOTE 5. Restructuring Activities

Given the economically-sensitive and highly competitive nature of the automotive electronics industry, the Company continues to closely monitor current market factors and industry trends, taking action as necessary which may include restructuring actions. However, there can be no assurance that any such actions will be sufficient to fully offset the impact of adverse factors on the Company or its results of operations, financial position and cash flows. During the three and six months ended June 30, 2017, the Company recorded $3 million and $4 million of restructuring expenses, net of reversals, respectively.

Electronics

During the fourth quarter of 2016, the Company announced a restructuring program impacting engineering and administrative functions to further align the Company's engineering and related administrative footprint with its core product technologies and customers. Through June 30, 2017, the Company has recorded approximately $31 million of restructuring expenses under this program, and expects to incur up to $45 million of restructuring costs associated with approximately 250 employees. During the three and six months ended June 30, 2017, the Company has recorded approximately $3 million and $4 million, respectively, of restructuring expenses under this program, and $18 million remains accrued as of June 30, 2017. The Company expects to record additional restructuring costs related to this program as the underlying plan is finalized.

During the first quarter of 2016, the Company announced a restructuring program to transform the Company's engineering organization and supporting functional areas to focus on execution and technology. The organization will be comprised of regional engineering, product management and advanced technologies, and global centers of competence. For the three and six month periods ended June 30, 2016, the Company recorded $1 million and $12 million, respectively, of restructuring expenses under this program, associated with approximately 100 employees. As of June 30, 2017 the plan is considered substantially complete.

During 2015, the Company announced a restructuring program designed to reduce the workforce at a European Electronics facility, of which $5 million remains accrued as of June 30, 2017.

Table of Contents

In connection with the acquisition of substantially all of the global automotive electronic business of Johnson Controls Inc. (the "Electronics Acquisition") in 2014, the Company commenced a restructuring program designed to achieve cost savings through transaction synergies. Charges for the program are considered substantially complete and approximately $1 million remains accrued as of June 30, 2017.

Other and Discontinued Operations

During 2016, the Company recorded restructuring expenses related to severance and termination benefits primarily related to the wind-down of certain operations in South America. As of June 30, 2017, the plan is considered substantially complete.

As of June 30, 2017, the Company retained approximately $6 million of restructuring reserves as part of the Interiors Divestiture associated with previously announced programs for the fundamental reorganization of operations at facilities in Brazil and France.

Restructuring Reserves

Restructuring reserve balances of $30 million and $40 million as of June 30, 2017 and December 31, 2016, respectively, are classified as "Other current liabilities" on the consolidated balance sheets. The Company anticipates that the activities associated with the current restructuring reserve balance will be substantially complete within one year. The Company's consolidated restructuring reserves and related activity are summarized below, including amounts associated with discontinued operations.

	Electronics	Other	Total
	(Dollars in Millions)		
December 31, 2016	$31	$ 9	$40
Expense	1	—	1
Utilization	(8)	(1)	(9)
March 31, 2017	24	8	32
Expense	6	—	6
Utilization	(6)	(1)	(7)
Reversals	(2)	(1)	(3)
Foreign currency	2	—	2
June 30, 2017	$24	$ 6	$30

NOTE 6. Inventories

Inventories consist of the following components:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Raw materials	$92	$ 83
Work-in-process	45	34
Finished products	28	34
	$165	$ 151

10

Table of Contents

NOTE 7. Other Assets

Other current assets are comprised of the following components:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Recoverable taxes	$65	$ 60
Prepaid assets and deposits	35	35
Joint venture receivables	31	39
Notes receivable	18	18
Contractually reimbursable engineering costs	8	7
Foreign currency hedges	—	6
Other	2	5
	$159	$ 170

Notes receivable represent bank notes generally maturing within six months. The Company has entered into arrangements with a financial institution to sell customer notes receivable in Asia. The receivables under the arrangement are sold with recourse, but qualify as a sale as all rights to the notes have passed to the financial institution. During the six months ended June 30, 2017 the Company received cash of $6 million for the sale of notes receivables under these arrangements, of which $5 million remain outstanding.

Other non-current assets are comprised of the following components:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Deferred tax assets	$51	$ 48
Recoverable taxes	35	34
Joint venture receivables	26	25
Contractually reimbursable engineering costs	15	11
Long term notes receivable	10	10
Other	14	18
	$151	$ 146

In conjunction with the Interiors Divestiture, the Company entered into a three year term loan with the buyer for $10 million, which matures on December 1, 2019.

Current and non-current contractually reimbursable engineering costs of $8 million and $15 million, respectively, as of June 30, 2017 and $7 million and $11 million, respectively, as of December 31, 2016, are related to pre-production design and development costs incurred pursuant to long-term supply arrangements that are contractually guaranteed for reimbursement by customers. The Company expects to receive cash reimbursement payments of approximately $6 million during the remainder of 2017, $4 million in 2018, and $13 million in 2019 and thereafter.

Table of Contents

NOTE 8. Intangible Assets, net

Intangible assets, net as of June 30, 2017 and December 31, 2016, are comprised of the following:

		June 30, 2017			December 31, 2016		
	Estimated Weighted Average Useful Life (years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(Dollars in Millions)					
Definite-Lived:							
Developed technology	10	$41	$ 27	$ 14	$40	$ 25	$ 15
Customer related	9	84	29	55	83	25	58
Capitalized software development	3	5	—	5	4	—	4
Other	32	8	1	7	8	1	7
Subtotal		138	57	81	135	51	84
Indefinite-Lived:							
Goodwill		46	—	46	45	—	45
Total		$184	$ 57	$ 127	$180	$ 51	$ 129

The Company recorded approximately $3 million and $6 million of amortization expense related to definite-lived intangible assets for the three and six months ended June 30, 2017. The Company currently estimates annual amortization expense to be $13 million for 2017, $14 million for 2018 and 2019, $11 million for 2020, and $10 million for 2021. Indefinite-lived intangible assets are not amortized but are tested for impairment at least annually, or earlier when events and circumstances indicate that it is more likely than not that such assets have been impaired. There were no indicators of potential impairment during the six months ended June 30, 2017.

The Company capitalizes software development costs after the software product development reaches technological feasibility and until the software product becomes releasable to customers. The capitalized software development costs are amortized over the useful life of the technology on a straight-line basis.

A roll-forward of the carrying amounts of intangible assets is presented below:

	Definite-lived intangibles				Indefinite-lived intangibles	
	Developed Technology	Customer Related	Capitalized Software Development	Other	Goodwill	Total
	(Dollars in Millions)					
December 31, 2016	$15	$ 58	$ 4	$ 7	$ 45	$129
Additions	—	—	1	—	—	1
Foreign currency	1	1	—	—	1	3
Amortization	(2)	(4)	—	—	—	(6)
June 30, 2017	$14	$ 55	$ 5	$ 7	$ 46	$127

12

Table of Contents

NOTE 9. Other Liabilities

Other current liabilities are summarized as follows:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Product warranty and recall accruals	$37	$ 43
Contribution payable	34	31
Restructuring reserves	30	40
Rent and royalties	25	23
Income taxes payable	21	22
Foreign currency hedges	15	7
Distribution payable	14	15
Joint venture payables	10	22
Deferred income	10	14
Dividends payable	6	5
Non-income taxes payable	5	8
Electronics operations repurchase commitment	—	50
Other	27	29
	$234	$ 309

On December 1, 2015, Visteon completed the sale and transfer of its equity ownership in Visteon Deutschland GmbH, which operated the Berlin, Germany interiors plant ("Germany Interiors Divestiture"). The Company contributed cash, of approximately $141 million, assets of $27 million, and liabilities of $198 million including pension related liabilities. The Company will make a final contribution payment of approximately $34 million during 2017 upon fulfillment of buyer contractual commitments.

On January 22, 2016 the Company paid to shareholders a special distribution of $1.74 billion, an additional $14 million will be paid over a two-year period upon vesting and settlement of restricted stock units and performance-based share units previously granted to the Company's employees. The special cash distribution was funded from the Climate Transaction proceeds.

Following the initial sale as part of the Climate Transaction, the Company repurchased an Electronics operation located in India on March 27, 2017 as further described in Note 3, "Discontinued Operations."

Other non-current liabilities are summarized as follows:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Deferred income	$16	$ 18
Product warranty and recall accruals	13	12
Income tax reserves	12	14
Non-income tax reserves	7	10
Other	14	15
	$62	$ 69

13

Table of Contents

NOTE 10. Debt

The Company’s short and long-term debt consists of the following:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Short-Term Debt:		
Current portion of long-term debt	$1	$ 3
Short-term borrowings	41	33
	$42	$ 36
Long-Term Debt:		
Term debt facility	$347	$ 346

Short-Term Debt

Short-term borrowings are primarily related to the Company's non-U.S. consolidated joint ventures and are payable in U.S. Dollars, Chinese Renminbi and India Rupee. The Company had short-term borrowings of $41 million and $33 million as of June 30, 2017 and December 31, 2016, respectively. Short-term borrowings increased in the second quarter of 2017 primarily due to changes in working capital needs.

Available borrowings on outstanding affiliate credit facilities as of June 30, 2017 are approximately $24 million and certain of these facilities have pledged assets as security.

Long-Term Debt

As of December 31, 2016, the Company had an amended credit agreement (the “Credit Agreement”) which included a $350 million Term Facility maturing April 9, 2021 and a Revolving Credit Facility with capacity of $200 million maturing April 9, 2019. Borrowings under the Term Facility accrued interest at the greater of LIBOR or 0.75%, plus 2.75%, with an option by the Company to specify the LIBOR tenor of either 1, 2, 3, or 6 months. Loans drawn under the Revolving Credit Facility had an interest rate equal to LIBOR plus a margin ranging from 2.00% to 2.75% as specified by a ratings grid contained in the Credit Agreement. As of December 31, 2016, borrowings under the Revolving Credit Facility would accrue interest at LIBOR plus 2.50%. There were no outstanding borrowings at year-end.

On March 24, 2017, the Company entered into a second amendment to the Credit Agreement to, among other things, extend the maturity dates of both facilities by three years and increase the Revolving Credit Facility capacity to $300 million. The amended Revolving Credit Facility will mature on March 24, 2022 and the amended Term Facility will mature on March 24, 2024. The amendment reduced the LIBOR spread applicable to each of the Revolving Credit Facility and the Term Facility by 0.50% and reduced the LIBOR floor related to the Term Facility from 0.75% to 0.00%. The $350 million of borrowings under the amended Term Facility now accrue interest at a rate of LIBOR plus 2.25%. In conjuntion with the refinancing the Company received a credit rating upgrade from Standard & Poor's to BB from BB-. Pursuant to the ratings grid in the amended Revolving Credit Facility, any borrowing thereunder will accrue interest at LIBOR plus 1.75%. As of June 30, 2017, there were no outstanding borrowings under the amended Revolving Credit Facility.

The Revolving Credit Facility also provides $75 million availability for the issuance of letters of credit and a maximum of $20 million for swing line borrowing. Any amount of the facility utilized for letters of credit or swing line loans outstanding will reduce the amount available under the amended Revolving Credit Facility. The Company may request increases in the limits under the amended Term Facility and the amended Revolving Credit Facility and may request the addition of one or more term loan facilities under the Credit Agreement. Outstanding borrowings may be prepaid without penalty (other than borrowings made for the purpose of reducing the effective interest rate margin or weighted average yield of the loans). There are mandatory prepayments of principal in connection with: (i) excess cash flow sweeps above certain leverage thresholds, (ii) certain asset sales or other dispositions, (iii) certain refinancing of indebtedness and (iv) over-advances under the Revolving Credit Facility. No excess cash flow sweeps are required at the Company’s current leverage ratios.

The Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contains customary events of default. The Revolving Credit Facility also requires that the Company maintain a total net leverage ratio no greater than 3.00:1.00. During any period when the Company’s corporate and family ratings meet investment

Table of Contents

grade ratings, certain of the negative covenants shall be suspended. As of June 30, 2017, the Company was in compliance with all covenants.

All obligations under the Credit Agreement and obligations in respect of certain cash management services and swap agreements with the lenders and their affiliates are unconditionally guaranteed by certain of the Company's subsidiaries. Under the terms of the Credit Agreement, all obligations under the Credit Agreement are secured by a first-priority perfected lien (subject to certain exceptions) on substantially all property of the Company and the subsidiaries party to the Security Agreement, subject to certain limitations.

During the six months ended June 30, 2017, the Company recorded $1 million of interest expense and deferred $2 million of costs as a non-current asset in connection with amending both the Term Facility and Revolving Credit Facility. The deferred costs will be amortized over the term of the debt facilities. As of June 30, 2017, the amended Term Facility remains at $350 million of aggregate principal and there were no outstanding borrowings under the amended Revolving Credit Facility.

Other

The Company has a $15 million letter of credit facility whereby the Company must maintain a collateral account equal to 103% of the aggregate stated amount of issued letters of credit (or 110% for non-U.S. currencies) and must reimburse any amounts drawn under issued letters of credit. The Company had $3 million of outstanding letters of credit issued under this facility secured by restricted cash, as of June 30, 2017.

Additionally, the Company had $17 million of locally issued letters of credit as of June 30, 2017, to support various tax appeals, customs arrangements and other obligations at its local affiliates.

NOTE 11. Employee Benefit Plans

Defined Benefit Plans

The Company's net periodic benefit costs for all defined benefit plans for the three month periods ended June 30, 2017 and 2016 were as follows:

	U.S. Plans		Non-U.S. Plans	
	2017	2016	2017	2016
	(Dollars in Millions)			
Costs Recognized in Income:				
Service cost	$—	$—	$1	$1
Interest cost	7	7	2	3
Expected return on plan assets	(10)	(11)	(2)	(3)
Settlements and curtailments	—	—	—	1
Amortization of losses and other	—	—	1	—
Net pension (income) expense	$(3)	$(4)	$2	$2

The Company's net periodic benefit costs for all defined benefit plans for the six month periods ended June 30, 2017 and 2016
were as follows:

	U.S. Plans		Non-U.S. Plans	
	2017	2016	2017	2016

	(Dollars in Millions)			
Costs Recognized in Income:				
Service cost	$—	$—	$1	$2
Interest cost	14	14	4	5
Expected return on plan assets	(20)	(21)	(4)	(5)
Settlements and curtailments	—	—	—	1
Amortization of losses and other	—	—	1	—
Net pension (income) expense	$(6)	$(7)	$2	$3

15

Table of Contents

During the six months ended June 30, 2017, cash contributions to the Company's defined benefit plans were less than $1 million for the U.S. plans and were $3 million for the non-U.S. plans. The Company expects to make cash contributions to its defined benefit pension plans of $7 million in 2017, which may be revised.

On April 28, 2016, the Company purchased a non-participating annuity contract for all participants of the Canada non-represented plan. The annuity purchase covered 52 participants and resulted in the use of $5 million of plan assets for pension benefit obligation settlements of approximately $5 million. In connection with the annuity purchase, the Company recorded a settlement loss of approximately $1 million during the the three months ended June 30, 2016.

NOTE 12. Income Taxes

During the three and six month periods ended June 30, 2017, the Company recorded a provision for income tax on continuing operations of $10 million and $26 million, respectively, which reflects income tax expense in countries where the Company is profitable; withholding taxes; changes in uncertain tax benefits; and the inability to record a tax benefit for pretax losses and/or recognize expense for pretax income in certain jurisdictions (including the U.S.) due to valuation allowances. Pretax losses from continuing operations in jurisdictions where valuation allowances are maintained and no income tax benefits are recognized totaled
$9 million and $12 million for the six months ended June 30, 2017 and June 30, 2016, respectively, resulting in an increase in the Company's effective tax rate in those years.

The Company provides for U.S. and non-U.S. income taxes and non-U.S. withholding taxes on the projected future repatriations of the earnings from its non-U.S. operations that are not considered permanently reinvested at each tier of the legal entity structure.
During the six month periods ended June 30, 2017 and 2016, the Company recognized expense primarily related to non-U.S. withholding taxes of $4 million and $2 million, respectively, reflecting the Company's forecasts which contemplate numerous financial and operational considerations that impact future repatriations.

The Company's provision for income taxes in interim periods is computed by applying an estimated annual effective tax rate against income before income taxes, excluding equity in net income of non-consolidated affiliates for the period. Effective tax rates vary from period to period as separate calculations are performed for those countries where the Company's operations are profitable and whose results continue to be tax-effected and for those countries where full deferred tax valuation allowances exist and are maintained. In determining the estimated annual effective tax rate, the Company analyzes various factors, including but not limited to, forecasts of projected annual earnings, taxing jurisdictions in which the pretax income and/or pretax losses will be generated and available tax planning strategies. The Company’s estimated annual effective tax rate is updated each quarter and may be significantly impacted by changes to the mix of forecasted earnings by tax jurisdiction. The tax impact of adjustments to the estimated annual effective tax rate are recorded in the period such estimates are revised. The Company is also required to record the tax impact of certain other non-recurring tax items, including changes in judgment about valuation allowances and uncertain tax positions, and changes in tax laws or rates, in the interim period in which they occur, rather than include them in the estimated annual effective tax rate.
The need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will cause variability in the Company’s quarterly and annual effective tax rates. Full valuation allowances against deferred tax assets in the U.S. and applicable foreign countries will be maintained until sufficient positive evidence exists to reduce or eliminate them. The factors considered by management in its determination of the probability of the realization of the deferred tax assets include, but are not limited to, recent historical financial results, historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If, based upon the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult

for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses, in particular, when there is a cumulative loss incurred over a three-year period. In regards to the full valuation allowance recorded against the U.S. net deferred tax assets, the cumulative U.S. pretax book loss adjusted for significant permanent items incurred over the three-year period ended December 31, 2016 limits the ability to consider other subjective evidence such as the Company's plans to improve U.S. profits, and as such, the Company continues to maintain a full valuation allowance against the U.S. net deferred tax assets. Based on the Company's current assessment, it is possible that within the next 12 to 24 months, the existing valuation allowance against the U.S. net deferred tax assets could be partially released. Any such release is dependent upon the sustained improvement in U.S. operating results, and, if such a release of the valuation allowance were to occur, it could have a significant impact on net income in the quarter in which it is deemed appropriate to partially release the reserve.

Table of Contents

Unrecognized Tax Benefits

Gross unrecognized tax benefits as of June 30, 2017 and December 31, 2016, including amounts attributable to discontinued operations, were $18 million and $35 million, respectively. Of these amounts approximately $9 million and $12 million as of June, 2017 and December 31, 2016, respectively, represent the amount of unrecognized benefits that, if recognized, would impact the effective tax rate. The gross unrecognized tax benefit differs from that which would impact the effective tax rate due to uncertain tax positions embedded in other deferred tax attributes carrying a full valuation allowance. If the uncertainty is resolved while a full valuation allowance is maintained, these uncertain tax positions should not impact the effective tax rate in current or future periods. The Company records interest and penalties related to uncertain tax positions as a component of income tax expense and related amounts accrued at June 30, 2017 and December 31, 2016 were $3 million and $4 million, respectively.

During the first quarter of 2017, the IRS completed the audit of the Company's U.S. tax returns for the 2012 and 2013 tax years. The closing of the audit did not have a material impact on the Company's effective tax rate due to the valuation allowances maintained against the Company's U.S. tax attributes resulting in a decrease in unrecognized tax benefits of $16 million. Also during the first quarter of 2017, the Company settled tax assessments from the Mexican tax authorities in the amount of $2 million related to certain transfer pricing-related issues.

With few exceptions, the Company is no longer subject to U.S. federal tax examinations for years before 2014, or state, local or non-U.S. income tax examinations for years before 2003, although U.S. net operating losses carried forward into open tax years technically remain open to adjustment. During the second quarter of 2017, the IRS contacted the Company to begin the examination process of the Company’s U.S. tax returns for 2014 and 2015. Although it is not possible to predict the timing of the resolution of all ongoing tax audits with accuracy, it is reasonably possible that certain tax proceedings in Europe, Asia and Mexico could conclude within the next twelve months and result in a significant increase or decrease in the balance of gross unrecognized tax benefits. Given the number of years, jurisdictions and positions subject to examination, the Company is unable to estimate the full range of possible adjustments to the balance of unrecognized tax benefits. The long-term portion of uncertain income tax positions (including interest) in the amount of $12 million is included in Other non-current liabilities on the consolidated balance sheet.

A reconciliation of the beginning and ending amount of unrecognized tax benefits including amounts attributable to discontinued operations is as follows:

	Six Months Ended June 30, 2017 (Dollars in Millions)
Beginning balance	$ 35
Tax positions related to current period:	
Additions	1
Tax positions related to prior periods:	
Reductions	(19)
Effect of exchange rate changes	1
Ending balance	$ 18

During 2012, Brazil tax authorities issued tax assessment notices to Visteon Sistemas Automotivos (“Sistemas”) related to the sale of its chassis business to a third party, which required a deposit in the amount of $15 million during 2013 necessary to open a judicial proceeding against the government in order to suspend the debt and allow Sistemas to operate regularly before the tax authorities after attempts to reopen an appeal of the administrative decision failed. Adjusted for currency impacts and accrued interest, the deposit amount is approximately $15 million, as of June 30, 2017. The Company believes that the risk of a negative outcome is remote once the matter is fully litigated at the highest judicial level. These appeal payments, as well as income tax refund claims associated with other jurisdictions, total $18 million as of June 30, 2017, and are included in "Other non-current assets" on the consolidated balance sheet.

Table of Contents

NOTE 13. Stockholders' Equity and Non-controlling Interests

Changes in equity for the three and six months ended June 30, 2017 and 2016 are as follows:

	2017			2016		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Three Months Ended June 30						
Beginning balance	$548	$132	$680	$586	$146	$732
Net income from continuing operations	45	3	48	35	4	39
Net income (loss) from discontinued operations	—	—	—	(9)	—	(9)
Net income	45	3	48	26	4	30
Other comprehensive income (loss)						
Foreign currency translation adjustments	21	1	22	(4)	(2)	(6)
Net investment hedge	(12)	—	(12)	4	—	4
Benefit plans	(1)	—	(1)	1	—	1
Unrealized hedging gain (loss)	(1)	—	(1)	—	—	—
Total other comprehensive income (loss)	7	1	8	1	(2)	(1)
Stock-based compensation, net	4	—	4	3	—	3
Share repurchase	(35)	—	(35)	—	—	—
Ending balance	$569	$136	$705	$616	$148	$764

	2017			2016		
	Visteon	NCI	Total	Visteon	NCI	Total
	(Dollars in Millions)					
Six Months Ended June 30						
Beginning balance	$586	$138	$724	$1,057	$142	$1,199
Net income from continuing operations	100	7	107	67	8	75
Net income (loss) from discontinued operations	8	—	8	(22)	—	(22)
Net income	108	7	115	45	8	53
Other comprehensive income (loss)						
Foreign currency translation adjustments	40	2	42	25	(2)	23
Net investment hedge	(13)	—	(13)	(2)	—	(2)
Benefit plans	(1)	—	(1)	1	—	1
Unrealized hedging gain (loss)	3	—	3	(4)	—	(4)
Total other comprehensive income (loss)	29	2	31	20	(2)	18
Stock-based compensation, net	6	—	6	(6)	—	(6)
Share repurchase	(160)	—	(160)	(500)	—	(500)
Dividends to non-controlling interests	—	(11)	(11)	—	—	—
Ending balance	$569	$136	$705	$616	$148	$764

Share Repurchase Program

During 2016, Visteon completed two stock buyback programs with a third-party financial institution to purchase shares of common stock for an aggregate purchase price of $500 million. Under these programs, Visteon purchased 7,190,506 shares at an average price of $69.48.

On January 10, 2017, the Company's board of directors authorized $400 million of share repurchase of its shares of common stock through. On February 27, 2017 the Company entered into an accelerated share buyback ("ASB") program with a third-party financial institution to purchase shares of Visteon common stock for an aggregate purchase price of $125 million. On March 2, 2017, the Company received an initial delivery of 1,062,022 shares of common stock using a reference price of $94.16. The

Table of Contents

program was concluded in May 2017 and the Company received an additional 238,344 shares. In total, the Company purchased 1,300,366 shares at an average price of $96.13 under this ASB program.

During the second quarter of 2017, the Company entered into a brokerage agreement with a third party financial institution to execute open market share purchases of the Company's common stock. The Company paid approximately $35 million to repurchase 359,100 shares at an average price of $97.44.

The Company anticipates that additional repurchases of common stock, if any, would occur from time to time in open market transactions or in privately negotiated transactions depending on market and economic conditions, share price, trading volume, alternative uses of capital and other factors.

Non-Controlling Interests

Non-controlling interests in the Visteon Corporation economic entity are as follows:

	June 30 2017	December 31 2016
	(Dollars in Millions)	
Yanfeng Visteon Automotive Electronics Co., Ltd.	$92	$ 97
Shanghai Visteon Automotive Electronics, Co., Ltd.	42	39
Other	2	2
	$136	$ 138

19

Table of Contents

Accumulated Other Comprehensive (Loss) Income

Changes in Accumulated other comprehensive (loss) income (“AOCI”) and reclassifications out of AOCI by component include:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Changes in AOCI:				
Beginning balance	$(211)	$(171)	$(233)	$(190)
Other comprehensive income (loss) before reclassification, net of tax	6	1	26	22
Amounts reclassified from AOCI	1	—	3	(2)
Ending balance	$(204)	$(170)	$(204)	$(170)
Changes in AOCI by Component:				
Foreign currency translation adjustments				
Beginning balance	$(144)	$(130)	$(163)	$(159)
Other comprehensive income before reclassification, net of tax (a)	21	(4)	40	25
Ending balance	(123)	(134)	(123)	(134)
Net investment hedge				
Beginning balance	9	(2)	10	4
Other comprehensive loss before reclassification, net of tax (a)	(12)	4	(13)	(2)
Ending balance	(3)	2	(3)	2
Benefit plans				
Beginning balance	(75)	(36)	(75)	(36)
Other comprehensive income before reclassification, net of tax (a)	(1)	—	(1)	—
Amounts reclassified from AOCI	—	1	—	1
Ending balance	(76)	(35)	(76)	(35)
Unrealized hedging (loss) gain				
Beginning balance	(1)	(3)	(5)	1
Other comprehensive income (loss) before reclassification, net of tax (b)	(2)	1	—	(1)
Amounts reclassified from AOCI	1	(1)	3	(3)
Ending balance	(2)	(3)	(2)	(3)
Total AOCI	$(204)	$(170)	$(204)	$(170)

(a) There were no income tax effects for the three month periods ending June 30, 2017 and 2016, due to the recording of valuation allowance.

(b) Net tax expense of less than $1 million and $1 million are related to unrealized hedging (loss) gain for the three months ended June 30, 2017 and 2016, respectively. Net tax expense of $1 million and less than $1 million are related to unrealized hedging gain for the six months ended June 30, 2017 and 2016, respectively.

NOTE 14. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to Visteon by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common and potentially dilutive common shares outstanding. Performance based share units are considered contingently issuable shares, and are included in the computation of diluted earnings per share based on the number of shares that would be issuable if the reporting date were the end of the contingency period and if the result would be dilutive.

20

Table of Contents

The table below provides details underlying the calculations of basic and diluted earnings (loss) per share:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(In Millions, Except Per Share Amounts)			
Numerator:				
Net income from continuing operations attributable to Visteon	$45	$35	$100	$67
Income (loss) from discontinued operations, net of tax	—	(9)	8	(22)
Net income attributable to Visteon	$45	$26	$108	$45
Denominator:				
Average common stock outstanding - basic	31.5	34.0	32.1	36.3
Dilutive effect of performance based share units and other	0.5	0.4	0.5	0.4
Diluted shares	32.0	34.4	32.6	36.7
Basic and Diluted Per Share Data:				
Basic earnings (loss) per share attributable to Visteon:				
Continuing operations	$1.43	$1.03	$3.12	$1.85
Discontinued operations	—	(0.26)	0.25	(0.61)
	$1.43	$0.77	$3.37	$1.24
Diluted earnings (loss) per share attributable to Visteon:				
Continuing operations	$1.41	$1.02	$3.07	$1.83
Discontinued operations	—	(0.26)	0.24	(0.60)
	$1.41	$0.76	$3.31	$1.23

NOTE 15. Fair Value Measurements and Financial Instruments

Fair Value Measurements

The Company uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs.

- Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.
- Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.
- Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Item Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The fair value measurements are generally determined using unobservable inputs and are classified within Level 3 of the fair value hierarchy. These assets include long-lived assets, intangible assets and investments in affiliates, which may be written down to fair value as a result of impairment. During the second quarter there were no items measured at fair value on a nonrecurring basis.

Items Not Carried at Fair Value

The Company's fair value of debt was approximately $400 million and $389 million as of June 30, 2017 and December 31, 2016, respectively. Fair value estimates were based on the current rates offered to the Company for debt of the same remaining maturities. Accordingly, the Company's debt fair value disclosures are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

Table of Contents

The Company is exposed to various market risks including, but not limited to, changes in currency exchange rates and market interest rates. The Company manages these risks, in part, through the use of derivative financial instruments. The maximum length of time over which the Company hedges the variability in the future cash flows related to transactions, excluding those transactions as related to the payment of variable interest on existing debt, is eighteen months. The maximum length of time over which the Company hedges forecasted transactions related to variable interest payments is the term of the underlying debt. The use of financial derivative instruments may pose risk of loss in the event of nonperformance by the transaction counter-party.

The Company presents its derivative positions and any related material collateral under master netting arrangements that provide for the net settlement of contracts, by counterparty, in the event of default or termination. Derivative financial instruments designated and non-designated as hedging instruments are included in the Company's consolidated balance sheets. There is no cash collateral on any of these derivatives.

Items Measured at Fair Value on a Recurring Basis

Foreign currency hedge instruments are measured at fair value on a recurring basis under an income approach using industry-standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Accordingly, the Company's foreign currency instruments are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

Interest rate swaps are valued under an income approach using industry-standard models that consider various assumptions, including time value, volatility factors, current market and contractual prices for the underlying and non-performance risk. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace. Accordingly, the Company's interest rate swaps are classified as Level 2, "Other Observable Inputs" in the fair value hierarchy.

Foreign Exchange Risk: The Company's net cash inflows and outflows exposed to the risk of changes in foreign currency exchange rates arise from the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, subsidiary dividends and investments in subsidiaries. The Company primarily uses foreign currency derivative instruments, including forward and option contracts, to mitigate the variability of the value of cash flows denominated in currency other than the hedging entity's functional currency. Foreign currency exposures are reviewed periodically and any natural offsets are considered prior to entering into a derivative financial instrument. The Company's current hedged foreign currency exposures include the Euro, Japanese Yen, Thailand Bhat and Mexican Peso.

As of June 30, 2017, and December 31, 2016, the Company had foreign currency derivative instruments with aggregate notional value of approximately $122 million and $169 million, respectively. At June 30, 2017, approximately $89 million of the hedge instruments have been designated as cash flow hedges. Accordingly, the effective portion of changes in the fair value of the transactions are initially recognized in other comprehensive income, a component of shareholders' equity. Upon settlement of the transactions, the accumulated gains and losses are reclassified to income in the same periods during which the hedged cash flows impact earnings. The ineffective portion of changes in the fair value of the transactions, if any, is recognized directly in income. There was no ineffectiveness associated with such derivatives as of June 30, 2017 and December 31, 2016 and the fair value of these derivatives was a liability of $3 million and a liability of $6 million, respectively. The fair value estimates derived from observable data, or are supported by observable levels at which similar transactions are executed in the marketplace. The difference between the gross and net value of these derivatives after offset by counter party is not material. The estimated AOCI that is expected to be reclassified into earnings within the next 12 months is approximately a loss of $2 million.

During 2015, the Company entered into cross currency swap transactions to mitigate the variability of the value of the Company's investment in certain non-U.S. entities. In April 2017, the Company terminated and received $5 million of proceeds upon settlement. There was no ineffectiveness associated with such derivatives at the time of the termination. The Company subsequently entered into new cross currency swap transactions with an aggregate notional amount of $150 million. The transactions are designated as net investment hedges of certain of the Company's European affiliates. Accordingly, the effective portion of changes in the fair value of the transactions are recognized in other comprehensive income, a component of shareholders' equity. There was no ineffectiveness associated with such derivatives as of June 30, 2017 and December 31, 2016 and the fair value of these derivatives was a liability of $12 million and an asset of $6 million, respectively.

Interest Rate Risk: The Company is subject to interest rate risk principally in relation to variable-rate debt. The Company uses financial derivative instruments to manage exposure to fluctuations in interest rates in connection with its risk management policies.

Table of Contents

During 2015, the Company entered into interest rate swaps to manage interest rate risk associated with the Term Facility. In April 2017 the Company terminated and paid $1 million to settle the contracts.

During the second quarter of 2017, the Company entered into new interest rate swap contracts with an aggregate notional value of $150 million to effectively convert designated interest payments related to the amended Term Facility from variable to fixed cash flows. The maturities of these swaps do not exceed the underlying obligations under the amended Term Facility. The instruments have been designated as cash flow hedges and the effective portion of the changes in the fair value of the swap transactions are recognized in other comprehensive income. Subsequently, the accumulated gains and losses recorded in equity are reclassified to income in the period during which the hedged cash transaction impacts earnings. The ineffective portion of changes in the fair value of the swap transactions, if any, are recognized directly in income. As of June 30, 2017 and December 31, 2016, the fair value was an asset of less than $1 million and a liability of $1 million, respectively and there has been no ineffectiveness associated with these derivatives. AOCI expected to be reclassified into earnings within the next 12 months is a loss of $1 million.

Financial Statement Presentation

Gains and losses on derivative financial instruments for the three and six months ended June 30, 2017 and 2016 are as follows:

	Recorded (Loss) Income into AOCI, net of tax		Reclassified from AOCI into (Income) Loss		Recorded in (Income) Loss	
	2017	2016	2017	2016	2017	2016
	(Dollars in Millions)					
Three Months Ended June 30						
Foreign currency risk - Cost of sales:						
Cash flow hedges	$(2)	$2	$1	$(1)	$—	$—
Net investment hedges	(12)	4	—	—	—	—
Non-designated cash flow hedges	—	—	—	—	(2)	(1)
Interest rate risk - Interest expense, net:						
Interest rate swap	—	(1)	1	—	—	—
	$(14)	$5	$2	$(1)	$(2)	$(1)
Six Months Ended June 30						
Foreign currency risk - Cost of sales:						
Cash flow hedges	$—	$3	$3	$(3)	$—	$—
Net investment hedges	(13)	(2)	—	—	—	—
Non-designated cash flow hedges	—	—	—	—	(3)	(1)
Interest rate risk - Interest expense, net:						
Interest rate swap	—	(4)	1	—	—	—
	$(13)	$(3)	$4	$(3)	$(3)	$(1)

Concentrations of Credit Risk

Financial instruments including cash equivalents, derivative contracts, and accounts receivable, expose the Company to counter-party credit risk for non-performance. The Company's counterparties for cash equivalents and derivative contracts are banks and financial institutions that meet the Company's credit rating requirements. The Company's counterparties for derivative contracts are substantial investment and commercial banks with significant experience using such derivatives. The Company manages its credit risk through policies requiring minimum credit standing and limiting credit exposure to any one counter-party and through monitoring counter-party credit risks.

The Company's credit risk with any individual customer does not exceed ten percent of total accounts receivable except for Ford and its affiliates which represents 18% and 16% of the balance as of June 30, 2017 and December 31, 2016, respectively, Mazda which represents 10% of the balance as of June 30, 2017 and December 31, 2016, and Nissan/Renault which represents 9% and 10% of the balance as of June 30, 2017 and December 31, 2016, respectively.

Table of Contents

NOTE 16. Commitments and Contingencies

Litigation and Claims

In 2003, the Local Development Finance Authority of the Charter Township of Van Buren, Michigan (the "Township") issued, approximately $28 million in bonds finally maturing in 2032, the proceeds of which were used at least in part to assist in the development of the Company's U.S. headquarters located in the Township. During January 2010, the Company and the Township entered into a settlement agreement (the "Settlement Agreement") that, among other things, reduced the taxable value of the headquarters property to current market value and facilitated certain claims of the Township in the Company's chapter 11 proceedings. The Settlement Agreement also provided that the Company would continue to negotiate in good faith with the Township in the event that property tax payments was inadequate to permit the Township to meet its payment obligations with respect to the bonds. In September 2013, the Township notified the Company in writing that it is estimating a shortfall in tax revenues of between $25 million and $36 million, which could render it unable to satisfy its payment obligations under the bonds. On May 12, 2015, the Township commenced a proceeding against the Company in the U. S. Bankruptcy Court for the District of Delaware in connection with the foregoing. Upon the Company's motion to dismiss, the Township dismissed the proceeding before the Delaware Bankruptcy Court and re-commenced the proceeding against the Company in the Michigan Wayne County Circuit Court for the State of Michigan on July 2, 2015. The Township sought damages or, alternatively, declaratory judgment that, among other things, the Company is responsible under the Settlement Agreement for payment of any shortfall in the bond debt service payments. On February 2, 2016, the Wayne County Circuit Court dismissed the Township's lawsuit without prejudice on the basis that the Township's claims were not ripe for adjudication. The Township appealed the decision to the Michigan Court of Appeals, which affirmed the dismissal of the Township's lawsuit. The Township has sought leave to appeal from the Michigan Supreme Court. The Company disputes the factual and legal assertions made by the Township and intends to vigorously defend the matter. The Company is not able to estimate the possible loss or range of loss in connection with this matter.

The Company is currently involved in disputes with its former President and Chief Executive Officer, Timothy D. Leuliette. Mr. Leuliette filed an arbitration demand against the Company with the American Arbitration Association, alleging claims relating to the cessation of his employment. The Company subsequently filed a complaint against Mr. Leuliette in the U.S. District Court for the Eastern District of Michigan, seeking to enjoin the arbitration and asserting additional claims. The federal litigation is currently stayed pending a ruling in the arbitration. The Company disputes the factual and legal assertions made by Mr. Leuliette, has asserted counterclaims against him in the arbitration, and, although there can be no assurances, the Company does not currently believe that the resolution of these disputes will have a material adverse impact on its results of operations or financial condition.

In November 2013, the Company and Halla Visteon Climate Control Corporation, a Korean corporation ("HVCC"), jointly filed an Initial Notice of Voluntary Self-Disclosure statement with the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") regarding certain sales of automotive HVAC components by a minority-owned, Chinese joint venture of HVCC into Iran. The Company updated that notice in December 2013, and subsequently filed a voluntary self-disclosure regarding these sales with OFAC in March 2014. In May 2014, the Company voluntarily filed a supplementary self-disclosure identifying additional sales of automotive HVAC components by the Chinese joint venture, as well as similar sales involving an HVCC subsidiary in China, totaling approximately $12 million, and filed a final voluntary-self disclosure with OFAC on October 17, 2014. OFAC is currently reviewing the results of the Company's investigation. Following that review, OFAC may conclude that the disclosed sales resulted in violations of U.S. economic sanctions laws and warrant the imposition of civil penalties, such as fines, limitations on the Company's ability to export products from the United States, and/or referral for further investigation by the U.S. Department of Justice. Any such fines or restrictions may be material to the Company's financial results in the period in which they are imposed, but at this time is not able to estimate the possible loss or range of loss in connection with this matter. Additionally, disclosure of this conduct and any fines or other action relating to this conduct could harm the Company’s reputation and have a material adverse effect on our business, operating results and financial condition. The Company cannot predict when OFAC will conclude its own review of our voluntary self-disclosures or whether it may impose any of the potential penalties described above.

The Company's operations in Brazil and Argentina are subject to highly complex labor, tax, customs and other laws. While the Company believes that it is in compliance with such laws, it is periodically engaged in litigation regarding the application of these laws. As of June 30, 2017, the Company maintained accruals of approximately $10 million and $5 million for claims aggregating approximately $55 million and $34 million in Brazil and Argentina, respectively. The amounts accrued represent claims that are deemed probable of loss and are reasonably estimable based on the Company's assessment of the claims and prior experience with similar matters.

While the Company believes its accruals for litigation and claims are adequate, the final amounts required to resolve such matters could differ materially from recorded estimates and the Company's results of operations and cash flows could be materially affected.

Table of Contents

Guarantees and Commitments

The Company provided a $18 million loan guarantee to YFVIC. The guarantee contains standard non-payment provisions to cover the borrowers in event of non-payment of principal, accrued interest, and other fees, and the loan is expected to be fully paid by September 2019.

As part of the agreements of the Climate Transaction and Interiors Divestiture, the Company continues to provide lease guarantees to divested Climate and Interiors entities. As of June 30, 2017, the Company has approximately $7 million and $6 million of outstanding guarantees respectively, related to divested Climate and Interiors entities. These guarantees will generally cease upon expiration of current lease agreements.

Product Warranty and Recall

Amounts accrued for product warranty and recall claims are based on management's best estimates of the amounts that will ultimately be required to settle such items. The Company's estimates for product warranty and recall obligations are developed with support from its sales, engineering, quality and legal functions and include due consideration of contractual arrangements, past experience, current claims and related information, production changes, industry and regulatory developments and various other considerations. The following table provides a reconciliation of changes in the product warranty and recall claims liability:

	Six Months Ended June 30	
	2017	2016
	(Dollars in Millions)	
Beginning balance	$55	$38
Accruals for products shipped	10	8
Changes in estimates	2	1
Specific cause actions	—	(1)
Recoverable warranty/recalls	—	(1)
Foreign currency	2	1
Settlements	(19)	(9)
Ending balance	$50	$37

Other Contingent Matters

The Company is actively negotiating the possible exit of a European facility that would involve contributing cash, inventory, and fixed assets to a third party. The potential transaction is subject to works council, governmental, and legal approvals. While the terms have yet to be finalized, the potential contribution includes cash and working capital ranging from $15 million to $20 million and long term assets of approximately $10 million to $15 million. As of June 30, 2017, the Company did not meet the specific criteria necessary for the assets to be considered held for sale.

Various legal actions, governmental investigations and proceedings and claims are pending or may be instituted or asserted in the future against the Company, including those arising out of alleged defects in the Company's products; governmental regulations relating to safety; employment-related matters; customer, supplier and other contractual relationships; intellectual property rights; product warranties; product recalls; and environmental matters. Some of the foregoing matters may involve compensatory, punitive or antitrust or other treble damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, or other relief which, if granted, would require very large expenditures. The Company enters into agreements that contain indemnification provisions in the normal course of business for which the risks are considered nominal and impracticable to estimate.

Contingencies are subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. Reserves have been established by the Company for matters discussed in the immediately foregoing paragraph where losses are deemed probable and reasonably estimable. It is possible, however, that some of the matters discussed in the foregoing paragraph could be decided unfavorably to the Company and could require the Company to pay damages or make other expenditures in amounts, or a range of amounts, that cannot be estimated as of June 30, 2017 and that are in excess of established reserves. The Company does not reasonably expect, except as otherwise described herein, based on its analysis, that any adverse outcome from

Table of Contents

such matters would have a material effect on the Company’s financial condition, results of operations or cash flows, although such an outcome is possible.

NOTE 17. Segment Information

Financial results for the Company's reportable segment have been prepared using a management approach, which is consistent with the basis and manner in which financial information is evaluated by the Company's chief operating decision maker in allocating resources and in assessing performance. The Company’s chief operating decision maker, the Chief Executive Officer, evaluates the performance of the Company’s segment primarily based on net sales, before elimination of inter-company shipments, Adjusted EBITDA (a non-GAAP financial measure, as defined below) and operating assets.

The Company’s current reportable segment is Electronics. The Company's Electronics segment provides vehicle cockpit electronics products to customers, including audio systems, information displays, instrument clusters, head up displays, infotainment systems, and telematics solutions. Prior to 2017, the Company also had Other operations consisting primarily of South Africa and South America climate operations substantially exited during the fourth quarter of 2016. As the Company ceased Other operations in 2016, future legacy impacts will be associated with the Company's continuing Electronics operations.

Segment Sales

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Dollars in Millions)			
Electronics	$774	$762	$1,584	$1,555
Other	—	11	—	